NEIL J. SMELSER AND
RICHARD SWEDBERG, EDITORS

THE HANDBOOK OF ECONOMIC SOCIOLOGY

The Handbook of Economic Sociology

Neil J. Smelser and
Richard Swedberg EDITORS

PRINCETON UNIVERSITY PRESS
PRINCETON, N.J.

RUSSELL SAGE FOUNDATION
NEW YORK

Published by Princeton University Press,
41 William Street, Princeton, New Jersey 08540
In the United Kingdom: Princeton University Press,
Chichester, West Sussex

Library of Congress Cataloging-in-Publication Data
The Handbook of economic sociology / Neil J. Smelser
and Richard Swedberg, editors.
p. cm.
Includes bibliographical references and indexes.
ISBN 0-691-03448-6
ISBN 0-691-04485-6 (pbk.)
1. Economics—Sociological aspects. I. Smelser, Neil J.
II. Swedberg, Richard.
HM35.H25 1994
306.3—dc20 94-1047

This book has been composed in Adobe Galliard

Princeton University Press books are printed on
acid-free paper and meet the guidelines for
permanence and durability of the Committee on
Production Guidelines for Book Longevity
of the Council on Library Resources

Printed in the United States of America

10 9 8 7 6 5 4 3 2

Preface

IN 1990, at the very outset of planning *The Handbook of Economic Sociology*, the editors discovered that each of us had come to the same conclusion, independently: that the field of economic sociology, in all its manifestations, had experienced such a season of vitality during the past ten years that the time was ripe for a general statement and consolidation of this accelerating work. Contemplating this volume on the eve of its publication, we find that conviction confirmed in the product. We hope that its readers—students of economic sociology, economics, economic history, economic anthropology, and others—will arrive at a similar conclusion.

As its editors, we are the first to acknowledge that this book will not be read straight through from beginning to end—like some gripping spy thriller devoured during a plane trip—except perhaps by those very few who agree to write reviews of it. Most readers will read selectively according to their interests and curiosity, and will begin by consulting the table of contents, the bibliographical references, or the index for preferred topics. Realizing this, we devote this preface to providing a general guide to the organization and contents of the volume.

The Handbook has the following general structure. Part I (chapters 1–7) is a series of general treatments of the field from a variety of different perspectives. Part II (chapters 8–22), which we call the economic core, deals with economic systems, economic institutions, and economic behavior. Part III (chapters 23–31) concerns a number of intersections among the economy and various noneconomic sectors of the society.

For those interested in learning about the scope of economic sociology, we recommend chapter 1 ("The Sociological Perspective on the Economy"), which defines and delimits the field, compares it to the concerns of mainstream economics, and reviews the contributions of some of its major figures. Supplementary information on economic sociology is in chapter 2 ("Culture and Economy," by Paul DiMaggio) and chapter 7 ("A Rational Choice Perspective on Economic Sociology"), in which James Coleman ventures some observations from the standpoint of the assumptions of economic rationality.

Several other chapters in part I are written by economists, in keeping with Schumpeter's dictum that economic sociology belongs as much to economics as to sociology. Geoffrey Hodgson (in chapter 3, "The Return of Institutional Economics") outlines the basic ideas in what has been known traditionally as institutionalism, and attempts to develop this approach; his special treatment of Veblen establishes a strong conceptual link with economic sociology. In chapter 4 ("Transaction Cost Economics and Organization Theory" by Oliver Williamson), the reader will find a clear statement by one of its founders of what is called the new institutional economics; the chapter demonstrates that some economists have turned to the study of a distinctively sociological subject-matter, bringing their own perspectives to it. Richard Nelson (in chapter 5, "Evolutionary Theorizing about Economic Change") traces the revival, modification, and application of principles of evolutionary theory to economic change. Chapter 6 ("Learning by Monitoring: The Institutions of Economic Development" by Charles Sabel) provides a very comprehensive view of economic change, using approaches from political economy, politics, and moral philosophy. In general, part I establishes the fundamentally interdisciplinary character of economic sociology, a feature that is evident despite differences in disciplinary approach.

Each chapter in the first section of part II—"The Economy in Macrosociological Perspective"—contains a mixture of traditional and innovative concerns. Gary Hamilton (chapter 8, "Civilizations and the Organization of Economies") takes the monumental comparative work of Max Weber as his starting point, but extends it in a variety of directions made possible by subsequent understandings. Both economists and sociologists have long been interested in the international aspects of economics, and Gary Gereffi (chapter 9, "The International Economy and

Economic Development") brings that interest up to date. Socialist or command economies have also been a continuing object of interest; Ivan Szelenyi, Katherine Beckett, and Lawrence P. King (chapter 10, "The Socialist Economic System") reflect on the economic aspects of socialist systems—a topic of special concern since so many economic systems of this type have collapsed in the past several years.

The second section of part II—"The Sociology of Economic Institutions and Economic Behavior"—reaches to the heart of economic activity itself. The section begins with three chapters on markets, the core economic institution. Richard Swedberg (chapter 11, "Markets as Social Structures") treats the subject from a general point of view. Chris Tilly and Charles Tilly (chapter 12, "Capitalist Work and Labor Markets") concentrate on the market for labor services. Mark S. Mizruchi and Linda Brewster Stearns (chapter 13, "Money, Banking, and Financial Markets") deal with a range of markets that have been curiously neglected until recently in economic sociology. The sociology of consumption, including some market aspects, is the topic of chapter 16 ("Consumption, Preferences, and Changing Lifestyles," by Jonathan Frenzen, Paul M. Hirsch, and Philip C. Zerrillo). The constraints of space and time on economic activity are explored in chapter 14 ("Trade, Transportation, and Spatial Distribution," by Michael Irwin and John Kasarda). Two additional chapters deal with the less formal aspects of markets. The important work on networks in the economy is covered in chapter 15 ("Networks in Economic Life," by Walter W. Powell and Laurel Smith-Doerr); and the complex and often seemingly contradictory structure of the informal economy is analyzed in chapter 17 ("The Informal Economy and Its Paradoxes," by Alejandro Portes).

The third section of part II—"The Sociology of Firms, Organizations, and Industry"—draws mainly from organization theory and general economic sociology. Two of the chapters fall more or less directly within the scope of organization theory: chapter 21 ("Firms and Their Environments," by Nitin Nohria and Ranjav Gulati) and chapter 22 ("Measuring Performance in Economic Organizations," by Marshall Meyer). The three remaining chapters deal with special aspects of business, such as incentives and rewards, leadership, and the tendency of firms to form groups with other firms. These include Alberto Martinelli's comprehensive treatment of entrepreneurship and management in chapter 19 ("Entrepreneurship and Management"), Aage Sørensen's evaluation of incentive systems in chapter 20 ("Firms, Wages, and Incentives"), and Mark Granovetter's analysis of the dynamics of business groups in chapter 18 ("Business Groups").

Part III—"Intersections of the Economy"—deals with the extension of economic life into a number of "noneconomic" sectors of society, and the extension of those sectors into the economy. Many of the topics are studied selectively in different disciplines, and one of the services done by the several chapters is to bring together the diverse strands of research. Two chapters deal with the economic intersections with the institutions of education (chapter 23, "Education and the Economy," by Richard Rubinson and Irene Browne) and religion (chapter 25, "Religion and Economic Life," by Robert Wuthnow). Chapters 24 ("Gender and the Economy," by Ruth Milkman and Eleanor Townsley) and 26 ("The Ethnic Economy," by Ivan Light and Stavros Karageorgis) deal with the embeddedness of the socially constructed dimensions of gender and ethnicity in economic life. Nicole Biggart (in chapter 27, "Labor and Leisure") consolidates a widely scattered literature on the economic aspects of leisure. Three chapters deal directly with the intersection of economics and politics. These are chapter 28 ("The Roles of the State in the Economy," by Fred Block), chapter 29 ("Welfare States and the Economy," by Gösta Esping-Andersen), and chapter 30 ("The Sociology of Distribution and Redistribution," by Suzanne Shanahan and Nancy Tuma). Finally, Johannes Berger brings together the relevant perspectives and research on the fledgling but undeniably vital area of the sociology of economic-environmental relations (chapter 31, "The Economy and the Environment").

To conclude, the editors express a hope that in this volume they have realized and will realize their objectives: to assemble, codify, systematize, and thereby advance knowledge about one of the most critical arenas in the contemporary world—economy and society; and to foster new directions of research of the highest quality relating to that arena.

Neil J. Smelser
Richard Swedberg

Acknowledgments

WE HAVE accumulated so many debts during the course of our work on this handbook that we readily acknowledge that producing it has been a truly collective enterprise. We mention first the continuous intellectual, financial, and moral support from the Russell Sage Foundation. Eric Wanner, president of the Foundation, affirmed his enthusiastic support of the project from the beginning, and followed through steadfastly at every stage. Madge Spitaleri, secretary of the Foundation, coordinated the project throughout. In particular, we take note of her heroics at two of its phases: first, in organizing a very successful conference held at RSF February 5–6, 1993, for which drafts of virtually all the chapters were circulated in advance to every author for critical reading and commentary; and second, in the actual preparation of *The Handbook* her help was indispensable in the complex business of assembling the final versions of chapters by so many different authors.

We also express our appreciation to Lisa Nachtigall at RSF and to Peter Dougherty, executive editor at Princeton University Press, for arranging the publication of the volume, and to Beth Gianfagna, Gavin Lewis, Nancy Kennedy, and Cindy Crumrine for help and patience during the production process.

Both editors have maintained a close association with the Russell Sage over the past several years. Smelser was a fellow in 1989–90, Swedberg in 1990–91. Smelser has served as a member of the Board of Trustees since 1990, and Swedberg spent several months at the Foundation in the summer of 1993, bringing *The Handbook* project to a close. We have been treated magnificently by the staff there. In addition to Eric Wanner, Madge Spitaleri, and Lisa Nachtigall, we would like to mention the following staff members, who have given one or both of us the finest support and service imaginable: Sara Beckman, Joyce Cuccia, Eileen Ferrer, Jamie Gray, Bianca Intalan, Pauline Jones, Vivian Kaufman, Jennifer Parker, Pauline Rothstein, Emma Sosa, and Camille Yezzi.

Finally, Smelser records gratitude to Christine Egan, his assistant at Berkeley, who handled the maze of essential letters, faxes, and telephone calls connected with the project, and thus once again helped sustain his sanity and good humor. Swedberg gives special thanks to Mark Granovetter, who offered important advice early in the development of *The Handbook* idea, and to the Magnus Bergvall Foundation of Svenska Handelsbanken in Sweden for additional financial support.

New York
August 1993

Contents

Part I

Introduction: General Concerns

1 The Sociological Perspective on the Economy

Neil J. Smelser and Richard Swedberg

As A FIELD of inquiry, economic sociology is an easily recognized field within the discipline, but among nonsociologists, including many economists, its contours are not familiar.[1] We begin, therefore, by defining the field and distinguishing it from mainstream economics. Next we lay out the classical tradition of economic sociology as found in the works of Marx, Weber, Durkheim, Schumpeter, Polanyi, and Parsons-Smelser. Finally, we cite some more recent developments and topics of concern in economic sociology.

The Definition of Economic Sociology

Economic sociology—to use a term that Weber and Durkheim introduced[2]—can be defined most simply as *the sociological perspective applied to economic phenomena.* A similar but more elaborate version is *the application of the frames of reference, variables, and explanatory models of sociology to that complex of activities concerned with the production, distribution, exchange, and consumption of scarce goods and services.*[3] One way to make this definition more specific is to indicate the variables, models, etc., that the economic sociologist employs. When Smelser first put forth such a definition (1963, pp. 27–28; 1976, pp. 37–38), he mentioned the sociological perspectives of personal interaction, groups, social structures (institutions), and social controls (among which sanctions, norms, and values are central). Given recent developments in sociology as a whole and economic sociology in particular, we would specify that the particular perspectives of social networks, gender, and cultural context have also become central in economic sociology (e.g., Granovetter 1985; Zelizer 1989a). In addition, the international dimension of economic life has assumed greater salience among economic sociologists, at the same time as that dimension has come to penetrate the actual economies of the contemporary world (Makler, Martinelli, and Smelser 1982).

Stinchcombe reminds us, finally, that the definition of economic sociology must invariably also include the ecological perspective. He puts the matter in the following way: "From the point of view of the sociology of economic life, [a] central point is that *every mode of production is a transaction with nature.* It is therefore simultaneously determined by what a society is prepared to extract with its technology from nature and by what is there in nature" (Stinchcombe 1983, p. 78). This definition is useful in two ways: it highlights the fact that an economy is always anchored in nature; it also calls attention to the fact that the boundary between economy and nature is a *relational* one—that is, "what a society *is prepared* to extract . . . from nature."

We now turn to a comparison between economic sociology and mainstream economics as a further way of elucidating the characteristics of the sociological perspective on the economy. This is a useful exercise only if an important cautionary note is kept in mind: both bodies of inquiry are much more complex than any brief comparison would suggest, so that any general statement almost immediately yields an exception or qualification. To illustrate:

> In economics the classical and neoclassical traditions have enjoyed a certain dominance—that is why they might be called "mainstream"—but the basic assumptions of those traditions have been modified and developed in many directions. In a classical statement, Knight ([1921] 1985, pp. 76–79) made explicit that neoclassical economics rested on the premises that actors have complete information and that information is free. Since that time economics has developed traditions of analysis based on assumptions of risk and uncertainty (for example,

Sandmo [1971]) and information as a cost (for example, Stigler [1961]). In addition, numerous versions of economic rationality—for example, Simon's (1982) emphasis on "satisficing" and "bounded rationality"—have appeared.

Sociology lacks one dominating tradition. Various sociological approaches and schools differ from and compete with one another, and this circumstance has affected economic sociology. For example, Weber was skeptical about the notion of a social "system," whether applied to economy or society, while Parsons viewed society as a system and economy as one of its subsystems. Furthermore, even if all economic sociologists might accept the definition of economic sociology we have offered, they focus on different kinds of economic behavior. Some, following the hint of Arrow (1990, p. 140) that sociologists and economists simply ask different questions, leave many important economic questions—such as price formation—to the economists and concentrate on other issues. Others, advancing what is called the New Economic Sociology (see Granovetter [1990] for a programmatic statement) argue that sociology should concentrate on core economic institutions and problems.

Those caveats recorded, there are nevertheless several areas in which a comparison between mainstream economics and economic sociology will clarify understanding of the specific nature of the sociological perspective.

A Comparison of Economic Sociology and Mainstream Economics

Table 1 offers a schematic summary of the major theoretical differences between the two lines of inquiry, differences that can be elaborated in the following ways.

TABLE 1. Economic Sociology and Mainstream Economics—A Comparison

	Economic Sociology	*Mainstream Economics*
Concept of the Actor	The actor is influenced by other actors and is part of groups and society	The actor is uninfluenced by other actors ("methodological individualism")
Economic Action	Many different types of economic action are used, including rational ones; rationality as *variable*	All economic actions are assumed to be rational; rationality as *assumption*
Constraints on the Action	Economic actions are constrained by the scarcity of resources, by the social structure, and by meaning structures	Economic actions are constrained by tastes and by the scarcity of resources, including technology
The Economy in Relation to Society	The economy is seen as an integral part of society; society is always the basic reference	The market and the economy are the basic references; society is a "given"
Goal of the Analysis	Description and explanation; rarely prediction	Prediction and explanation; rarely description
Methods Used	Many different methods are used, including historical and comparative ones; the data are often produced by the analyst ("dirty hands")	Formal, especially mathematical model building; no data or official data are often used ("clean models")
Intellectual Tradition	Marx-Weber-Durkheim-Schumpeter-Polanyi-Parsons/Smelser; the classics are constantly reinterpreted and taught	Smith-Ricardo-Mill-Marshall-Keynes-Samuelson; the classics belong to the past; emphasis is on current theory and achievements

Sources: In constructing this table we have drawn on Knight ([1921] 1985); Quirk (1976); Blaug (1980); Swedberg (1986); Winter (1987); and Hirsch, Michaels, and Friedman (1990).

The concept of the actor. To put the matter without qualification, the analytic starting point of economics is the individual; the analytic starting points of economic sociology are groups, institutions, and society. In microeconomics, the individualistic approach has conspicuous origins in early British utilitarianism and political economy. This orientation was elucidated systematically by the Austrian economist, Carl Menger (see Udéhn 1987), and given the label "methodological individualism" by Schumpeter, who explained that "in the discussion of certain economic transactions you start with the individual" (Schumpeter 1908, p. 90). By contrast, in discussing the individual, the sociologist focuses on the actor as socially constructed entity, as "actor-in-interaction," or "actor-in-society." Often, moreover, sociologists take the group and social-structural levels as phenomena *sui generis*, and do not consider the individual actor as such.

Methodological individualism is not logically incompatible with a sociological approach, as the work of Max Weber indicates. In his introductory theoretical chapter to *Economy and Society*, he constructed his whole sociology on the basis of the actions of individuals. But these actions are of interest to the sociologist only insofar as they are *social* actions, or, in his words, "they take account of the behavior of other individuals and thereby are oriented in their course" (Weber [1922] 1978, p. 4). This formulation underscores a second difference between microeconomics and economic sociology: the former assumes that actors are not connected to one another; the latter assume that actors are linked with and influenced by others. As we will indicate, this difference in first assumptions has implications for how economies function.

The concept of economic action. In microeconomics the actor is assumed to have a given and stable set of preferences and chooses that alternative line of action which maximizes utility (individual) or profit (firm). In economic theory, this way of acting constitutes economically rational action. Sociology, by contrast, encompasses several possible types of economic action. To illustrate from Weber again, economic action can be either rational, traditional, or speculative-irrational (Weber [1922] 1978, pp. 63–69). It is noteworthy that, except for residual mention of "habits" and "rules of thumb," economists give no place to traditional economic action (which, arguably, constitutes its most common form; see, however, Akerlof 1984b and Schlicht 1993).

A second major difference between microeconomics and economic sociology in this context has to do with the scope of rational action. The economist traditionally identifies rational action with the efficient use of scarce resources. The sociologist's view is, once again, broader. Weber referred to the conventional maximization of utility, under conditions of scarcity and expressed in quantitative terms, as "formal rationality." In addition, however, he identified "substantive rationality," which refers to allocation within the guidelines of other principles, such as communal loyalties or sacred values. A further difference lies in the fact that economists regard rationality as an *assumption*, whereas sociologists regard it as a *variable* (see Stinchcombe 1986, pp. 5–6). According to the latter view, the actions of some individuals or groups may be more rational than others (cf. Akerlof 1990). Along the same lines, sociologists tend to regard rationality as a phenomenon to be explained, not assumed. Weber dedicated a great deal of his economic sociology to specifying the social conditions under which formal rationality is possible, and Parsons ([1940] 1954) argued that economic rationality was a system of norms—not a psychological universal—associated with specific developmental processes in the West.

Another difference emerges in the status of *meaning* in economic action. Economists tend to regard the meaning of economic action as derivable from the relation between given tastes on the one hand and the prices and quantity of goods and services on the other. Weber's conceptualization has a different flavor: "The definition of economic action [in sociology] must . . . bring out the fact that all 'economic' processes and objects are characterized as such entirely by the *meaning* they have for human action" (Weber [1922] 1978, p. 64). According to this view, meanings are historically constructed and must be investigated empirically, and are not simply to be derived from assumptions and external circumstances.

Finally, sociologists tend to give a broader and more salient place to the dimension of *power* in economic action. Weber ([1922] 1978, p. 67) insisted that "[it] is essential to include the criterion of power of control and disposal (*Verfügungsgewalt*) in the sociological concept of economic action," adding that this applies especially in the capitalist economy. By contrast, microeconomics has tended to regard economic action as an exchange among equals, and has thus had difficulty in incorporating the power dimension (Galbraith

1973; 1984). In the tradition of perfect competition, no buyer or seller has the power to influence price or output. "The power . . . to restrict quantities sold and raise prices is effectively annihilated when it is divided among a thousand men, just as a gallon of water is effectively annihilated if it is spread over a thousand acres" (Stigler 1968, p. 181). It is also true that economists have a long tradition of analyzing imperfect competition—in which power to control prices and output is the core ingredient—and that the concept of "market power" is often used in labor and industrial economics (e.g., Scherer 1990). Still, the economic conception of power is typically narrower than the sociologist's notion of economic power, which includes its exercise in societal—especially political and class—contexts as well as in the market. In a recent study of the power of the U.S. banking system, for example, Mintz and Schwartz (1985) analyzed how banks and industries interlock, how certain banks cluster together into groups, and how banks sometimes intervene in corporations in order to enforce economic decisions. More generally, sociologists have analyzed and debated the issue of the extent to which corporate leaders constitute a "power elite" in the whole of society (e.g., Mills 1956; Dahl 1958; Domhoff and Dye 1987).

Constraints on economic action. In mainstream economics, actions are constrained by tastes and by the scarcity of resources, including technology. Once these are known, it is in principle possible to predict the actor's behavior, since he or she will always try to maximize utility or profit in an economic setting. The active influence of other persons and groups, as well as the influence of institutional structures, is set to one side. Knight codified this in the following way: "Every member of society is to act as an individual only, in entire independence of all other persons. To complete his independence he must be free from social wants, prejudices, preferences, or repulsions, or any values which are not completely manifested in market dealing. Exchange of finished goods is the only form of relation between individuals, or at least there is no other form which influences economic conduct" (Knight [1921] 1985, p. 78).

Sociologists take such influences directly into account in the analysis of economic action. Other actors either facilitate, deflect, or constrain individuals' actions in the market. For example, a long-standing friendship between a buyer and a seller may prevent the buyer from deserting the seller just because an item is sold at a lower price elsewhere in the market (e.g., Dore 1983). Cultural meanings also affect choices that might otherwise be regarded as "rational." In the United States, for example, it is difficult to persuade people to buy cats and dogs for food, even though their meat is as nutritious and cheaper than other kinds (Sahlins 1976, pp. 170–79). In general, moreover, a person's position in the social structure conditions his or her economic activity. In an explication of Merton's concept of social structure, Stinchcombe (1975) evoked the principle that structural constraints influence career decisions in ways that run counter to the principle of economic payoff. For example, for a person who grows up in a high-crime neighborhood, the choice between making a career of stealing and getting a job often has less to do with the comparative utility of these two alternatives than with the structure of peer groups and gangs in the neighborhood. Stinchcombe generalized this point by constructing a map, reproduced in figure 1, of the ranges of interactive influences between actor and society that affect his or her behaviors.

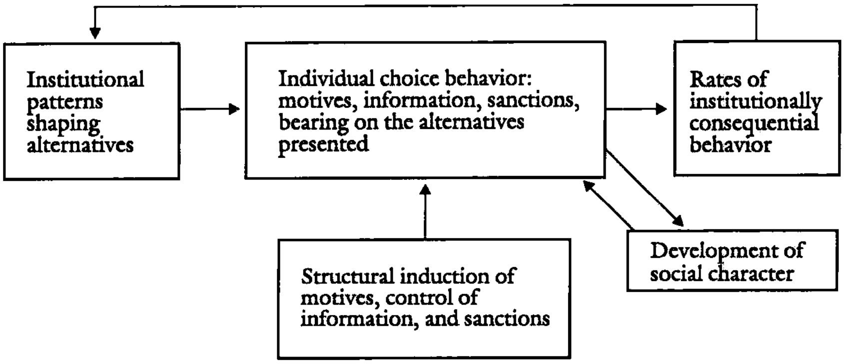

FIGURE 1. Interaction between Individual Choice and Social Structure: The Sociological Model. *Source:* Stinchcombe (1975, p. 13).

The economy in relation to society. The main foci for the economist are economic exchange, the market, and the economy. To a large extent, the remainder of society is regarded as "out there," beyond where the operative variables of economic change really matter (see Quirk 1976, pp. 2–4; Arrow 1990, pp. 138–39). To put the matter more precisely, economic assumptions often presuppose stable societal parameters. For example, the long-standing assumption that economic analysis deals with peaceful and lawful transactions and does not deal with force and fraud involves some important presuppositions about the legitimacy and the stability of the state and legal system. In this way the societal parameters—which would surely affect the economic process if the political-legal system were to disintegrate—are frozen by assumption, and thus are omitted from the analysis. In recent times, economists have turned to the analysis of why institutions rise and persist (New Institutional Economics) and have varied the effects of institutional arrangements in experiments (see Eggertsson 1990). Nevertheless, the contrast with economic sociology remains. The latter line of inquiry, having grown as a field within general sociology, has always regarded the economic process as an organic part of society, constantly in interaction with other forces. As a consequence, economic sociology has usually concentrated on three main lines of analysis: (1) the sociological analysis of economic process; (2) the analysis of the connections and interactions between the economy and the rest of society; and (3) the study of changes in the institutional and cultural parameters that constitute the economy's societal context.

Goal of analysis. As social scientists, both economists and sociologists have a professional interest in the systematic explanation of phenomena encompassed by their respective subject-matters. Within this common interest, however, different emphases emerge. Economists tend to be critical of descriptions—they have long condemned traditional institutional economics for being too descriptive and atheoretical. Instead they stress the importance of prediction. "Since the days of Adam Smith," Blaug (1978, p. 697) writes, "economics has consisted of the manipulation of a priori assumptions . . . in the production of theories or hypotheses yielding predictions about events in the real world." Sociologists, by contrast, offer fewer formal predictions, and often find sensitive and telling descriptions both interesting in themselves and essential for explanation. As a result of these differences, sociologists often criticize economists for generating formal and abstract models and ignoring empirical data, and economists reproach sociologists for their incapacity to make predictions and their penchant for "*post factum* sociological interpretations" (Merton 1968, pp. 147–49).

Methods employed. The emphasis on prediction constitutes one reason why mainstream economics places such high value on expressing its hypotheses and models in mathematical form. Though the advantages of this kind of formal theorizing are readily apparent, economists themselves have complained that it tends to become an end in itself. In his presidential address to the American Economic Association in 1970, Wassily Leontief criticized his profession's "uncritical enthusiasm for mathematical formulation." "Unfortunately," Leontief said, "anyone capable of learning elementary, or preferably advanced calculus and algebra, and acquiring acquaintance with the specialized terminology of economics can set himself up as a theorist" (Leontief 1971, p. 1). Later he reiterated this criticism, noting that more than half of the articles in the *American Economic Review* consist of mathematical models that are not related to any data (Leontief 1982, p. 106).

When economists do turn to empirical data, they tend to rely mainly on those generated for them by economic processes themselves (for example, aggregated market behavior, stock exchange transactions, and official economic statistics gathered by governmental agencies). Sample surveys are occasionally used, especially in consumption economics; archival data are seldom consulted, except by economic historians; and ethnographic work is virtually nonexistent. By contrast, sociologists rely heavily on a great variety of methods, including analyses of census data, independent survey analyses, participant observation and field work, and the analysis of qualitative historical and comparative data. In an oversimplified but telling phrase, Hirsch, Michaels, and Friedman (1990) characterized the two methodological styles as "clean models" for economists and "dirty hands" for sociologists.

Intellectual traditions. To a degree that we consider a matter for regret, economists and sociologists not only rely on different intellectual traditions that overlap only slightly, but they also regard those traditions differently (Akerlof 1990, p.

64). Evidently influenced by the natural science model of systematic accumulation of knowledge, economists have shown less interest than sociologists in study and exegesis of their classics (with some notable exceptions such as Adam Smith and David Ricardo); correspondingly, economics reveals a rather sharp distinction between current economic theory and the history of economic thought. In sociology these two facets blend more closely. The classics are very much alive, and are often required reading in "gatekeeper" theory courses required of first-year graduate students.

Despite these differences, and despite the persisting gulf between the traditions of economics and economic sociology, some evidence of synthesis can be identified over the years. Major theorists such as Alfred Marshall, Vilfredo Pareto, and Talcott Parsons have attempted major theoretical syntheses. Certain other figures, notably Weber and Schumpeter, have excited interest among both economists and sociologists. In addition, some economists and sociologists often find it profitable to collaborate in specific problem areas, such as poverty. Later in the chapter we will raise again this key problem of intellectual articulation among economists and sociologists.

The Tradition of Economic Sociology

If one attempts to establish dates of birth, it can be asserted with plausibility that the origins of economic sociology—the term as well as the idea—are to be found in the works of Weber and Durkheim around the turn of the century, several decades after the marginal utility approach was codified in the works of Menger, Jevons, and Walras. As is often the case in genealogical exercises of this sort, however, one can find seeds and protoformations in the writings of earlier thinkers. As an illustration of this, Karl Polanyi traced a kind of dialectic between societal and "economistic" thinking about the economy dating back to Montesquieu in the middle of the eighteenth century. His thinking is summarized in table 2.

One must make special mention of Montesquieu and Smith. In the former's *The Spirit of the Laws* (1748) one finds a suggestive comparative analysis of economic phenomena. Smith's *Wealth of Nations* (1776) reveals his evident interest in the role that institutions play in the economy. Even earlier, in *The Theory of Moral Sentiments* (1759), Smith had tried to lay a kind of microfoundation for this kind of analysis. Another important figure in the prehistory of economic sociology (as we are conceiving it) is Karl Marx. While his persistent materialism probably constituted an obstacle to the development of an independent sociology of economic life, Marx's ideas are nonetheless central in its evolution, and for that reason we begin with a brief consideration of his works.

TABLE 2. Major Figures in the Development of a Social Perspective on the Economy, according to Karl Polanyi

(1) Original societal approach	
	Montesquieu (1748)
	François Quesney (1758)
	Adam Smith (1776)
(2) Original economistic approach	
	Townsend (1786)
	Malthus (1798)
	Ricardo (1817)
(3) Return to societal approach	
	Carey (1837)
	List (1841)
	Marx (1859)
(4) Return to economistic approach	
	Menger (1871)
(5) Synthesis of (3) and (4)	
	Max Weber (1905)

Source: Polanyi ([1947] 1971, p. 123).

Karl Marx (1818–1883). Marx's early work, the *Economic and Philosophical Manuscripts of 1844* ([1844] 1964), holds great interest, especially the articles entitled "The Power of Money in Bourgeois Society" and "Estranged Labor." In the first Marx developed his initial ideas about the fate of social relations when everything becomes a commodity—i.e., can be bought and sold for money. In the second he focused on labor in particular, emphasizing the distortions of the work process when labor becomes a commodity. Drawing on Hegel, Marx contrasted the alienation that a worker necessarily experiences in a society dominated by private property with his or her self-realization through labor in a more humane type of society. In *The Communist Manifesto* ([1848] 1978), written a few years later, Marx developed the essentials of his entire worldview: that history is propelled by the class struggle; that there exist only two major classes in capitalist society, bourgeoisie and proletarians; and that the proletariat will eventually usher in a classless society by revolutionary means.

Marx's later work on the economy begins with *Grundrisse*, a series of notebooks written in 1857–58, and *A Contribution to the Critique of Political Economy* (1859). In the former, which Marx himself referred to as "A Critique of Economic Categories," he developed a kind of "sociology of knowledge" analysis of economic theory, as well as a sociological analysis of money (e.g., Marx [1857–58] 1973, pp. 84–111, 156–66). By 1859 he was able to present an overview of his final system: *A Contribution to the Critique of Political Economy*. In that work he proclaimed that the economy constitutes "the real foundation" of society, and on this foundation—and dependent on it—"the legal and political superstructure" is based (Marx [1859] 1970, pp. 20–21). At a certain stage of development, "the forces of production" come into contradiction with "the relations of production," and the ultimate result of the accompanying crisis is a social revolution. In *Capital*, which Marx regarded as a kind of continuation of *A Contribution to the Critique of Political Economy*, he presented his most nearly complete economic analysis: commodities are created through labor; these are then exchanged for money; money is turned into capital; capital generates increasing exploitation, immiseration, and class conflict. Marx's ambition in this massive work was to lay bare "the natural laws of capitalist production," which, he argued, "work with necessity towards inevitable results" (Marx [1867] 1906, p. 13). In retrospect, it appears that in this formulation Marx committed the kind of error that he had accused many bourgeois economists of committing—namely, reifying a set of economic categories and elevating them into more or less universal laws. At the same time, it is evident that Marx's work contains a systematic and in many ways compelling account of the rise and evolution of capitalism, without reference to which it would be impossible to understand Weber's *Economy and Society* or Schumpeter's *Capitalism, Socialism and Democracy*.

As is the case with most major social thinkers, Marx's work has produced an entire literature of exegesis and controversy. Especially since his work generated a revolutionary program and became the ideological foundation for regimes in the Soviet Union, Eastern Europe, and China, that literature has been fused with ambivalence. At one moment Weber claimed—prematurely, as it turned out—that the idea that economic factors decide the evolution of history was "totally finished" (Weber [1924] 1984, p. 456). At the same time, Weber saw Marx as a pioneer in the development of the new kind of social economics he himself was trying to create ([1904] 1949, pp. 63–65), and many commentators on Weber have stressed his continuing dialogue with Marx. According to Schumpeter ([1942] 1975, pp. 1–58), most of Marx's economic theses were of little scientific value. Yet Schumpeter also thought that Marx's idea that capitalism possesses internal dynamics that transform itself was a brilliant insight on which economists could build (Schumpeter [1937] 1989). In more recent times the influence of classical Marxism has once again waned. Influential critics from both the neoconservative "end of ideology" school (Bell 1960) and the neocritical school (Marcuse 1964; Habermas 1975) have proclaimed his class analysis inapplicable to postindustrial society. Moreover, the collapse of communist and socialist systems legitimized in the names of Marx and Lenin in the 1980s and into the 1990s further discredited Marxian sociology, especially in Eastern and Western Europe. Yet scholars of different stripes still argue that while many parts of Marx's theory are unacceptable, other elements are valuable and enduring (e.g., Smelser 1973; Elster 1986, pp. 286–99). It is still premature, as it was in Weber's time, to declare Marx "totally finished."

Max Weber (1864–1920). Economic sociology as a distinguishable intellectual entity was created independently about the same time in Germany and in France. The most important figure in Germany was Max Weber, though there are major works by other scholars such as Georg Simmel ([1907] 1978) and Werner Sombart ([1916–27] 1987; for commentaries, see Klausner 1982 and Frisby 1992). The influences on Weber were many. Among them was the Historical School of economics, whose teachings Weber absorbed as a young student at Heidelberg. When he assumed his chair in political economy in Freiburg, Weber referred to himself as one of "the younger members of the German Historical School" ([1895] 1980, p. 440); Schumpeter said he belonged to "the 'Youngest' Historical School" (1954, pp. 815–19; see also Hennis 1987). We have already mentioned the influence of Marx. As a young man Weber became acquainted with Marx's work, and recent archival discoveries show that he lectured on Marx while a professor of economics (Weber [1898] 1990). The extent of Marx's influence is much debated. A negative influence is certainly clear, since Weber polemicized repeatedly against the idea that only "material interests" (as opposed